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C O N F I D E N T I A L SECTION 01 OF 03 BRASILIA 000776

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TAGS: [PGOV](#) [PREL](#) [ECON](#) [BR](#)

SUBJECT: LULA TAKING FRIENDLY FIRE FROM COALITION PARTIES

REF: A. BRASILIA 0564

[B](#). BRASILIA 0572

[C](#). BRASILIA 0458

Classified By: POLOFF RICHARD REITER, FOR 1.5B AND D.

[1](#). (C) SUMMARY. The Lula administration has fumbled its response to February's "Waldomiro scandal", resulting in non-stop criticism from the Brazilian press and opposition. Worse for the administration, many of the parties in the governing coalition have responded to the crisis not by rallying behind the government, but by ratcheting up their complaints about GoB economic policies and their demands for special favors. The PL, PMDB, PTB, and PP have been particularly contentious allies. As a result, the coalition is frayed and Lula's ability to push legislation to reestablish his momentum will be constrained unless he can rebuild the coalition's unity --a difficult task given that this is an election year in which the parties have individual agendas and added incentive to squabble. The first step in the process occurred on March 30, when Lula promised to disburse some R\$500 million to fund legislators' pet projects in return for their support on a key congressional vote. END SUMMARY.

#### GOVERNING COALITION SHOWS FRAYED EDGES

[2](#). (C) The Waldomiro Diniz scandal (in which a senior advisor on President Lula's staff was caught on videotape soliciting bribes from a numbers racketeer) broke on February 13. Since then, the administration has careened from perplexity to difficulty, as Chief of Staff Jose Dirceu's reputation has plummeted, the GoB's approval numbers have slipped (ref A), and the parties in the ruling coalition have begun to sound more like opposition critics than Lula supporters. Of note, a national poll released on March 25 reveals that 52% of respondents had never even heard of the Waldomiro scandal, and only 9% said it changed their opinion of the government. Thus, it is the perception of ineffectiveness (coupled with Brazil's stubborn economic problems), rather than the scandal itself, that has contributed to the government's slump.

[3](#). (C) Physiologism ("fisiologismo") is a Brazilian term roughly translatable as "crass opportunism", applied to politicians with no core beliefs who switch allegiances for short-term advantage. The administration's problems have been amplified by the fact that some coalition members are hardly true-believers in the vision of Lula and the Workers' Party (PT). They joined the coalition to be on the side of power, and they will threaten to leave just as quickly if they sense the coalition losing authority. This is particularly true since nationwide municipal elections will be held in October, meaning the parties are jockeying against each other to win mayorships and city council seats.

#### LIBERAL PARTY TURNS MEAN

[4](#). (C) Waldemar Costa Neto, President of the Liberal Party (PL), gave a stinging March 14 press interview in which he said, "The greatest problem is that nobody at the core of the government understands economics". He said that both Finance Minister Palocci and Central Bank President Meirelles should be fired and economic policy turned over to Vice President Jose Alencar (of the PL). When Lula expressed his displeasure with Costa Neto's comments, other party leaders walked them back. The PL is a right-of-center party that Lula wooed into the coalition to increase his appeal to both the business and evangelical communities. Costa Neto is not the only unhappy Liberal. When the scandal broke in February, PL Senator Magno Malta vainly tried to set up a congressional inquiry (ref B) that would have dragged out the scandal for months. Meanwhile, VP Alencar has periodically (most recently on March 29) criticized the administration's fiscal austerity policies.

#### PMDB JOINS THE FRAY

[5](#). (C) The PL is not the coalition's only headache. The chronically-divided PMDB abruptly changed course at a party leadership meeting on March 14, dealing a defeat to the pro-Lula wing led by Senator Jose Sarney. It was Sarney's parliamentary tactic that saved the GoB further angst by killing Magno Malta's attempt to set up a scandal inquiry in

the Senate. Lula was grateful, but the move left Sarney exposed within his own party. At the March 14 meeting, Sao Paulo Federal Deputy Michel Temer, a Lula critic, was reelected PMDB president with the support of the first couple of Rio de Janeiro: Governor Rosinha and Anthony Garotinho. Even with Temer's resurgence, the PMDB is too "physiologist" to leave the coalition on principle, for that would mean giving up its cabinet posts and other perks (though some PMDB Deputies released a letter on March 24 threatening to pull out of the coalition if their economic advice were not followed). Instead, the party will increase its criticism of the administration and demand more perks (and influence over policy) in return for its tepid support.

16. (C) Sarney's influence within the PMDB will be reduced, at least until he figures out a way to fight back. Anthony Garotinho is already positioning himself to run in the 2006 presidential elections, often slamming the administration in public statements. Garotinho appears to have forgotten that the PMDB is in the ruling coalition, noting on March 27, "We are not radicals. We're building a 'constructive opposition'. This is not targeting the President, but is designed to help him. Even though the government mistreats us, we feel no rancor." If the anti-Lula faction retains control over the party through 2005, it might then leave the coalition to open more daylight for Garotinho's presidential run. In the meantime, the PMDB will be looking to negotiate with the PT on candidate slates in key towns for October's municipal elections.

#### LULA GETS NO JOY FROM OWN PARTY

17. (C) On March 5, without consulting Lula, the Workers' Party (PT) Executive Committee issued a statement critical of the administration's economic policies. Lula complained to party President Jose Genoio, who quickly walked back the statement. But two weeks later, PT "radicals" (the leftist wings of the party) met in Sao Paulo and also demanded economic policy changes. While these episodes did not cause serious damage, they underscore two phenomena: a) the ideological differences that fester within the PT (and the constant work Lula must do to keep his own troops in line); and b) that many in the PT are politically tone-deaf. The March 5 statement was issued during a particularly tough week (Magno Malta's attempt to set up a scandal inquiry in the Senate was a huge concern for the administration at the time). The fact that PT leaders would publicly criticize Lula when he most needed their unified support illustrates the impulse by some members to behave as an opposition party --even a year after Lula's inauguration-- when they should have developed better governing skills.

#### SMALLER PARTIES ALL OVER THE BOARD

18. (C) The smaller parties in the coalition have also spoken out, both for and against the administration. The conservative PP and populist PTB have threatened to pull out of the coalition, though both are highly "physiologist" and their threats are not taken seriously, except as they are designed to attract administration attention to their demands for pork barrel spending and second- and third-tier government job appointments. The week of March 22, the two parties led a mini-rebellion that delayed voting on Lula's Presidential Decree to ban bingo parlors (refs B, C). Meanwhile, the left-of-center Popular Socialist Party (PPS) --always a loyal, low-maintenance coalition member-- on March 28 reelected as party president Federal Deputy Roberto Freire who promptly announced that the PPS will continue to support Lula and "does not want to take advantage of the political crisis". The socialist PSB has similarly been quietly supportive of the administration.

#### COMMENT - WINNING OVER THE ALLIES

19. (C) The government's doldrums have been nourished not only by an undisciplined coalition, but also its own poor response to the Waldomiro scandal (exacerbated by the fact that Chief of Staff Jose Dirceu, the administration's best tactician, was at the center of the storm and not in a position to provide good advice. Septel will examine Dirceu's role in the crisis and the government.) The administration is now appealing to coalition leaders' desire to hang together rather than hang separately, but it is not doing so empty-handed. Lula's new cabinet-rank Political Coordinator, Aldo Rebelo, is putting together a "political council" comprising leaders from all nine allied parties, and a coalition "code of conduct" is under discussion. Rebelo is also pledging to speed the nomination of precious federal job appointments (the tens of thousands of positions throughout the GoB's nationwide apparatus have always been among the sweetest of political plums). In terms of legislation, the administration has put on the back-burner plans for campaign finance reform and a bill that would have allowed the Senate and Chamber presidents to serve for four, rather than two, years. Both bills had stirred opposition inside the coalition.

10. (C) One legislative achievement, freighted with symbolism, occurred at midnight on March 30, when the Chamber of Deputies voted to ratify Lula's February 20 Presidential Decree that banned bingo and slot parlors throughout the country. That decree was Lula's first and strongest response to the Waldomiro scandal, but to remain in force it needed a congressional vote --a vote which, if Lula had lost, would have been a clear rebellion by the coalition and a heavy blow to his legislative authority. The PP and PTB parties managed to put off the Chamber vote for a week (para 8). In the hours before the vote, the administration managed to buy coalition unity by promising to disburse a R\$300 million package of pork barrel spending already approved by Congress in this year's budget (as well as releasing another R\$200 million undisbursed from last year). The bingo ban now goes to the Senate for a final vote. A further R\$1.2 billion remains undisbursed and presumably available to buy more legislative victories as the end of Congress's session approaches on June 30.

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